

Bethlehem Steel Company's Bid for Government Contracts

TO THE PUBLIC:

It is the policy of the Bethlehem Steel Company to place details of its relations with the United States Government before the American people.

In a peculiar sense Bethlehem Steel serves the American people. We provide a large quantity of ordnance materials for the use of the army and navy, and our facilities are of high potential importance for building men-of-war.

It is because of our peculiar relationship to the Government that we have felt a special responsibility—a patriotic responsibility—for all our policies in dealing with the Government.

THOUGH, since the war began, Europe has been willing to pay almost any price we chose to ask for our products, we have adhered, in our charges to the United States Government, to the basis of prices established before the war began.

There was agitation last year for the building of a Government armor-plant. Certain of our statesmen at Washington declared that we had been "robbing" the Government, although the figures showed that our Navy had, for twenty years past, paid less for armor than the navy of any of the other great powers.

We did not concede that our prices for armor were too high, but we did agree—if the Government would abandon its plans for a Federal plant—to make armor for our Navy at any price the Government itself might consider fair.

Does anybody imagine for a moment that we would have made such an offer if it would show that our previous prices had been exorbitant?

In the development of our Navy now being pushed forward, larger ships are to be built and greater guns are called for than ever before.

One of the special needs is sixteen-inch guns—guns sixty feet long and capable of hurling a 2,000-pound shell with such power and accuracy as to hit a 50-foot square target fifteen miles away. Such guns call for the highest skill and experience of the gun-makers' art. Upon such guns may depend, indeed, the safety of the nation.

In view of this need and realizing that our own experience was probably unique, we have undertaken voluntarily to construct, at a cost of \$4,500,000, a plant fitted to build sixteen-inch guns.

Under no conceivable circumstances can orders which we may receive for this plant pay even a fair return on the investment. But we are devoting to this purpose profits received from other business. We felt that we must do this as a part of our patriotic obligation.

I.

Government Munition Factories.

Inquiries are being made as to whether it may be necessary or desirable for the Government to build plants to make munitions of war. Agents of the Government have been to Bethlehem to see what facilities we had.

We have developed at Bethlehem an ordnance plant greater than Krupp's. Before the war we employed 8,000 men at Bethlehem; now we have more than 25,000 at that point alone.

We have stated to agents of the Government—we have stated to Committees of Congress—that our ordnance plants are at the disposal of the nation at a fair operating cost, plus a small margin, thus saving the Government the cost of investment and depreciation—for we have already amortized these items out of European orders.

Our belief is that the wisest government policy is to encourage establishment of the maximum private ordnance manufacturing capacity. If the Government goes into munition manufacture upon a large scale, private plants will undoubtedly be diverted to other uses, and in time of emergency the capacity of the Government plants, necessarily limited, would be the nation's sole reliance for munitions upon which its very existence might depend.

The prices charged the Government should, of course, be reasonable, and the Government has ample ways of satisfying itself that prices

are reasonable. The fact, however, that a price is high does not indicate that it is unreasonable. Nor does the fact that a fair profit is asked indicate greed on the part of the manufacturer.

II.

Bids on Sixteen-Inch Shells.

Considerable comment has been made upon the fact that a British manufacturer recently bid less than American manufacturers for sixteen and fourteen inch shells for the navy.

We are unable to state the basis upon which the English bid was made. It should be remembered, however, that this bid was for a specific shell, samples of which are being sent over for test—a test not yet made. It should be remembered also that though there has been an enormous consumption of shells on land, the British navy has been in action but little since the war started.

It is entirely conceivable that there is a considerable surplus of naval shells on hand which the British government might be willing, even in time of war, to have its munitions makers "dump" on our market and turn the proceeds into shells for use on the battlefield.

Now, as to the bids made by American manufacturers, particularly ourselves:

All bids for any work must be based upon actual experience. Certain experience Bethlehem has had with the making of naval shells will illustrate this.

Two years ago we took an order for 2,400 fourteen-inch armor-piercing shells at a contract price of \$768,000.

These shells were to be delivered within a certain time or we had to pay a large penalty.

The part of our plant used for the manufacture of these shells was in no demand for European work nor for any other purpose; and if we could not use it successfully on this contract it was all lost effort.

The only specifications which the Navy Department gives for the guidance of manufacturers in making these shells is that they shall be of a certain size and that they must pierce armor-plate at a certain velocity on impact. The quality of the armor-plate is not standardized, and it is impossible for a manufacturer to foretell the exact conditions of the tests to which his shells will be subjected.

We had made large quantities of shells in the past which had been accepted by the Navy Department. But in placing the particular order referred to for fourteen-inch shells, the Navy Department altered the angle at which the tested shells must pierce armor-plate. The proposition was new, but we were assured by officers of the Department that the shells then being produced would meet the Government's new tests. The result, however, has been absolute inability on our part, or of any other manufacturers, to produce in any quantity, shells which will meet these novel tests. In fact, we know of no process of projectile-making through which it is possible to produce in quantities shells which will conform to the Navy Department's requirements.

The result is that up to now on that contract of \$768,000, we have put into actual operating expense \$447,881, and have been penalized for non-delivery \$495,744, a total of \$943,625, with no receipts whatever.

Before we realized what was to be our experience with the contract for 2,400 shells we took a subsequent contract for 1,800 shells at \$747,000. Having been unable to produce any shells which would pass the test on the first or-

der, we have, of course, not yet begun the second order; and we are already confronted with penalties of \$182,391 on that account.

We have devoted all our ingenuity and resources to meet the demands of the Navy Department, and with every motive both of patriotism and of business to fulfill the contract. But the fact is that the requirements of the Department on these contracts have been in our judgment absolutely beyond the development of the art of projectile manufacture.

Such was the experience in the light of which we were called upon recently to bid for fourteen and sixteen inch shells.

Having been unable—after incurring liabilities of more than \$1,000,000—to deliver shells on previous orders which would satisfy the Department, we saw no good purpose to be served by bidding at all on more fourteen-inch shells.

The sixteen-inch shell, however, was something new, and we thought it possible that we might be able to meet the requirements.

The problem being absolutely novel, we had no basis, of course, upon which to make an intelligent bid. If your customer demands something beyond your power to deliver, no price for the article is too high. But we felt that we should bid on the assumption that we could meet the specifications and deliver the goods.

We, therefore, bid on these shells, at approximately the same rate per pound as that of a fourteen-inch shell contract of one year ago upon which the Navy Department actually awarded contracts.

That is the whole story. We have not the slightest idea what profit there will be in the making of these shells. We do not know that there will be any profit. Indeed, there is no certainty that even if we receive the contract, it would be possible for us to deliver a shell that will meet the test; we cannot know what the nature of these tests will be.

But we are taking all the chances, and stand ready to do our part.

For officers in the Navy Department to assume that any bid made under such conditions is "exorbitant" is, as we see it, utterly unfair.

If, however, the Navy Department will make its tests within the known capacity of the projectile-making art, and if these tests shall be standardized, we will undertake to manufacture shells under conditions both as to price and as to time, which will equal if not be better than those of any other manufacturer in the world.

III.

Bids on Battle Cruisers.

The policy of the Navy Department seems to embody an effort to discourage private enterprise and to divert all work for national defense into government plants. The situation with reference to battle cruisers is an example in point.

The Bethlehem Steel Corporation controls shipbuilding companies which build perhaps 40 per cent of the tonnage of the United States. Knowing the purpose of the Government to enlarge its navy, we deliberately reserved a large part of our facilities—at the sacrifice of merchant contracts carrying with them large profits—that it might be available to aid in carrying out the naval program.

We bid on the new battle cruisers sums which Navy Department experts, after examination of our books and records, found would yield a profit of less than ten per cent. Indeed, we agreed to assume risks for increased costs of

materials and labor, that made it possible that these contracts might yield no profit whatever.

The price for these vessels is indeed high, for the design calls for size and speed beyond anything ever before demanded.

Now it so happens that the costs run beyond the amount actually appropriated by Congress on the basis of the cost estimates made a year ago by the Navy Department.

Finding this to be so, and because shipbuilders could not alter the inexorable cost facts and reduce their bids to a point within the early estimates of the Navy Department, the prices are called "exorbitant;" the Secretary of the Navy writes a letter to the Chairman of the House Committee on Naval Affairs, scoring the shipbuilders, and Congress is asked to appropriate \$12,000,000 with which to equip the Government navy yards to build these ships.

This request is made without any assurance whatever that the Government can build these ships any more cheaply than the private shipbuilders.

One newspaper, a few days ago, noting that the price of these ships might, if built within a certain time, be something over \$19,000,000—stated that it was "inconceivable" that that could not be unreasonably high.

Why "inconceivable?"

The fact that the figure is large is not conclusive.

It would be a real advantage to Bethlehem Steel shipyards to be relieved of any obligation to enter upon this naval construction. The profit from it cannot, possibly amount to much, and the responsibility is enormous. But we do feel a patriotic obligation in the matter, and we realize that it is our duty to do everything we can to make our plant and experience available for the use of the American Government.

After careful consideration, therefore, we have determined to make this offer to the American Government:

If you will build two of the battle cruisers in Government navy yards, we will build the other two at the ascertained cost of building the ships in the Government yards, without additional expense or commissions of any kind. We will also contract to have our ships ready for service ahead of the Government ships.

IV.

Future Policy.

In 1915 we employed 23,000 men; now we have some 70,000 men on our pay rolls.

In 1915 our total pay roll was \$22,500,000; in 1917 it is at the rate of \$72,000,000 a year, or \$6,000,000 a month.

The average earnings of each wage-earner were a little over \$900 in 1915, whereas our figures for 1916 show average earnings of nearly \$1,200 per man, an increase of more than 30 per cent.

Bethlehem's policy is to prepare for peace rather than increase its ordnance-making facilities. We are now working on a construction program involving an outlay in the next few years of more than \$100,000,000—probably the largest construction program ever undertaken by a single industrial corporation.

When that program is completed, instead of Bethlehem being primarily and largely an ordnance company, as it is today, our twenty-five component parts will consist of twenty parts commercial manufacture, four parts shipbuilding, and only one part ordnance-making.